

May 2002

FINANCIAL AUDIT

Capitol Preservation Fund's Fiscal Years 2001 and 2000 Financial Statements



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Abstract To the Members of the Capitol Preservation Commission Auditor s Report We have audited the statements of financial position of the Capitol Preservation Fund (the Fund) as of September 30, 2001, and 2000, and the related statements of activities and statements of cash flows for the fiscal years then ended. We found the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; no material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations; and no reportable noncompliance with the provisions of laws and regulations we tested. The following sections provide additional detail about our conclusions and the scope of our audit.		
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United States General Accounting Office
Washington, D.C. 20548

May 17, 2002

To the President of the Senate and the
Speaker of the House of Representatives

This report presents our opinion on the financial statements of the Capitol Preservation Fund (the Fund) for the fiscal years ended September 30, 2001, and 2000. It also discusses our consideration of the Fund's internal control and our tests of compliance with laws and regulations during fiscal year 2001. We conducted our audit pursuant to 40 U.S.C. 188a-3 and in accordance with U.S. generally accepted government auditing standards. We appreciate the cooperation and assistance of the Office of the Secretary of the Senate, the Office of the Clerk of the House of Representatives, and the staffs of the Architect of the Capitol and the Library of Congress provided during our audit.

We are sending copies of this report to the members of the Capitol Preservation Commission; the Honorable Jeri Thomson, Secretary of the Senate; the Honorable Jeffrey T. Trandahl, Clerk of the House of Representatives; the Honorable Alan M. Hantman, Architect of the Capitol; the Honorable James H. Billington, Librarian of Congress; and other interested parties.

If you or your staff have any questions concerning this report, please contact me at (202) 512-9406 or John Reilly, Assistant Director, at (202) 512-9517. You can also reach us by e-mail at franzelj@gao.gov or reillyj@gao.gov. Key contributors to this report were Greg Ziombra, Kwabena Ansong, Robert Preshlock, and Bridget Skjoldal.

Jeanette M. Franzel
Acting Director
Financial Management and Assurance



United States General Accounting Office
Washington, D.C. 20548

To the Members of the Capitol Preservation Commission

We have audited the statements of financial position of the Capitol Preservation Fund (the Fund) as of September 30, 2001, and 2000, and the related statements of activities and statements of cash flows for the fiscal years then ended. We found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations; and
- no reportable noncompliance with the provisions of laws and regulations we tested.

The following sections provide additional detail about our conclusions and the scope of our audit.

Opinion on Financial Statements

The financial statements and accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the Capitol Preservation Fund's financial position as of September 30, 2001, and 2000, and the results of its activities and its cash flows for the fiscal years then ended.

Consideration of Internal Control

In planning and performing our audit of the Fund's fiscal year 2001 financial statements, we considered the Fund's internal control over financial reporting and compliance.¹ We did this to determine our procedures for auditing the financial statements, not to express an opinion on internal control over financial reporting and compliance. Accordingly, we do not

¹ The objectives of financial reporting control are to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition. The objective of compliance control is to provide reasonable assurance that transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.

express an opinion on internal control. However, for the controls we tested, we found no material weaknesses in internal controls over financial reporting (including safeguarding assets) and compliance. A material weakness is a condition in which the design or operation of internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties. Our consideration of internal control would not necessarily disclose all material weaknesses.

Compliance with Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Objectives, Scope, and Methodology

The management of the Capitol Preservation Commission is responsible for

- preparing the Fund's financial statements in conformity with U.S. generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the objectives of internal control are met; and
- complying with applicable laws and regulations.

We are responsible for

- obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- obtaining a sufficient understanding of internal control over financial reporting and compliance with laws and regulations to plan the audit; and

-
- testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements and notes, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements and notes, (4) obtained an understanding of the design and operation of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations and tested selected internal controls, and (5) tested compliance with selected provisions of the following laws and/or regulations.

- Capitol Preservation Commission and Capitol Preservation Fund enabling legislation, 40 U.S.C. 188a-188a-5.
- United States Capitol Visitor Center Commemorative Coin Act of 1999, Title II, Public Law 106-126.


We did not test all internal controls relevant to the operations of the Capitol Preservation Fund. We limited our consideration to internal control over financial reporting and compliance with laws and regulations for the purpose of planning our audit. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our consideration of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the Capitol Preservation Fund. We limited our tests of compliance to selected provisions of laws and regulations that we deemed applicable to the Fund's financial statements for the fiscal year ended September 30, 2001. We caution that non-compliance may occur and not be detected by our tests and such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards.

Commission Comments

We provided a draft of our report to representatives of the Capitol Preservation Commission for their review and comment. The Commission's representatives agreed with the contents of our report.

A handwritten signature in black ink, reading "Jeanette M. Franzel". The signature is written in a cursive style with a large, looping initial "J".

Jeanette M. Franzel
Acting Director
Financial Management and Assurance

March 27, 2002

Financial Statements

Statements of Financial Position

CAPITOL PRESERVATION FUND STATEMENTS OF FINANCIAL POSITION

As of September 30

	<u>2001</u>	<u>2000</u>
Assets		
Cash	\$ 1,059	\$ 953
Investments, net (note 3)	35,809,577	29,087,824
Accrued interest receivable on investments	<u>299,930</u>	<u>419,941</u>
Total assets	<u>\$ 36,110,566</u>	<u>\$ 29,508,718</u>
Liabilities and net assets		
Accounts payable	\$ <u>267,449</u>	\$ <u>0</u>
Total liabilities	267,449	0
Net assets (note 4)		
Unrestricted	30,843,117	29,508,718
Temporarily restricted	<u>5,000,000</u>	<u>0</u>
Total net assets	<u>35,843,117</u>	<u>29,508,718</u>
Total liabilities and net assets	<u>\$ 36,110,566</u>	<u>\$ 29,508,718</u>

The accompanying notes are an integral part of these financial statements.

Statements of Activities

CAPITOL PRESERVATION FUND
STATEMENTS OF ACTIVITIES

For the Fiscal Years Ended September 30

	<u>2001</u>	<u>2000</u>
Changes in unrestricted net assets		
Revenues (note 5)		
Interest	\$ <u>1,601,848</u>	\$ <u>1,599,011</u>
Total unrestricted revenues	1,601,848	1,599,011
Program expenses (note 6)		
Capitol Visitor Center	262,999	2,891
Art, furnishings and historical items	<u>4,450</u>	<u>17,475</u>
Total program expenses	267,449	20,366
Increase in unrestricted net assets	<u>1,334,399</u>	<u>1,578,645</u>
Changes in temporarily restricted net assets		
Contributions (note 4)	5,000,000	0
Increase in temporarily restricted net assets	<u>5,000,000</u>	<u>0</u>
Increase in net assets	6,334,399	1,578,645
Net assets at beginning of year	<u>29,508,718</u>	<u>27,930,073</u>
Net assets at end of year	\$ <u>35,843,117</u>	\$ <u>29,508,718</u>

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

CAPITOL PRESERVATION FUND
STATEMENTS OF CASH FLOWS

For the Fiscal Years Ended September 30

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities		
Temporarily restricted contributions received	\$ 5,000,000	\$ 0
Interest received	1,721,859	1,478,019
Cash paid for expenses	<u>0</u>	<u>(20,366)</u>
Net cash provided from operating activities	6,721,859	1,457,653
Cash flows from investing activities		
Purchases of Treasury securities	(80,540,174)	(59,512,753)
Maturities of Treasury securities	<u>73,818,421</u>	<u>58,051,981</u>
Net cash used by investing activities	(6,721,753)	(1,460,772)
Net increase (decrease) in cash	106	(3,119)
Cash at beginning of year	<u>953</u>	<u>4,072</u>
Cash at end of year	\$ <u>1,059</u>	\$ <u>953</u>
Reconciliation of change in net assets to net cash provided from operating activities		
Change in net assets	\$ 6,334,399	\$ 1,578,645
Adjustments to reconcile change in net assets to net cash provided from operating activities		
Increase in accounts payable	267,449	0
Decrease (increase) in accrued interest	<u>120,011</u>	<u>(120,992)</u>
Total adjustments	387,460	(120,992)
Net cash provided from operating activities	\$ <u>6,721,859</u>	\$ <u>1,457,653</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

**CAPITOL PRESERVATION FUND
NOTES TO FINANCIAL STATEMENTS****NOTE 1: DESCRIPTION OF ENTITY**

The Capitol Preservation Commission (the Commission) was established under Title VIII of Public Law 100-696 in November 1988 for the purpose of providing for improvements in, preservation of, and acquisitions (including works of fine art and other property for display) for the United States Capitol and other locations under the control of the Congress. In September 1999, the Capitol Preservation Commission was given the responsibility, pursuant to Public Law 106-57, for approving the planning, engineering, design, and construction milestones of the Capitol Visitor Center. The center is intended to provide greater security for all persons working in or visiting the Capitol and to enhance the educational experience of those who come to learn about the Capitol building and the Congress.

To finance improvement, preservation, and acquisition activities of the Commission, Title VIII of Public Law 100-696 established the Capitol Preservation Fund (the Fund) within the U.S. Treasury. In addition, Public Law 107-117 (January 2002) authorized the Commission to transfer amounts from the Fund to the Architect of the Capitol for use in planning, engineering, design, or construction of the Capitol Visitor Center. The Fund consists of assets derived from deposits of charitable contributions, surcharge proceeds from the secretary of the treasury arising from the sale of commemorative coins, and interest earned on the invested portions of the Fund's assets. Fund assets not needed to finance current improvement, preservation, or acquisition projects are invested in interest-bearing obligations of the United States.

Since its establishment, the Fund has been designated to receive coin surcharge proceeds from three commemorative coin programs authorized by the Congress.

- Coin surcharge proceeds authorized by the Bicentennial of the United States Congress Commemorative Coin Act and the Bicentennial of the United States Capitol Commemorative Coin Act were received by the Fund without restriction and remain available to the Commission for use in funding improvement, preservation, and acquisition projects. All proceeds from these coin programs have been received and deposited in the Fund.
- Coin surcharge proceeds authorized by the United States Capitol Visitor Center Commemorative Coin Act of 1999, and received by the Fund will be restricted to use in the construction, maintenance, and preservation of the Capitol Visitor Center. The Capitol Visitor Center Commemorative Coin sales program, operated by the U.S. Mint, ended in March 2002.

In accordance with its rules, the Commission may fund or assist in the funding of improvements to the Capitol Building and surrounding grounds if such improvements are authorized, undertaken, and completed under the procedures established by the

Congress for such purposes. With respect to works of fine art and other property for display, the Commission is authorized to expend \$400,000 (\$200,000 for the House of Representatives and \$200,000 for the Senate) for the purchase of art, furnishings, or items of historical interest provided that such expenses are approved by a majority of the members of the Commission from the body of Congress for which such purchases are made. However, the Commission may not maintain any collection of fine or decorative art, or other property, but may assist in the transfer of such items to a congressional entity (such as the Senate Commission on Art, the House Fine Arts Board, or the Joint Committee on the Library) or facilitate the disposal of items.

The Architect of the Capitol, the Senate Commission on Art, and the House of Representatives Fine Arts Board are required by Public Law 100-696 (1988) to provide staff support and assistance to the Commission. As necessary, the Architect of the Capitol awards contracts and procures goods and services to complete projects approved by the Commission, and ensures that the project-related goods and services purchased from vendors are received. Similarly, the Library of Congress, pursuant to Public Law 101-45, (1989) is required to provide financial management services for the Commission. These services include coordinating activities with the Department of the Treasury for the deposit, disbursement, investment, and management of the Capitol Preservation Fund. In addition to these congressional entities, the secretary of the Senate and the clerk of the House of Representatives, pursuant to Commission rules, provide general administrative-type support and assistance.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fund's financial statements have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles. They reflect the receipt and use of the Fund's assets to finance Commission-approved improvement, preservation, and acquisition activities. The Fund's investments are recorded at cost, net of discounts, which approximates fair market value. The Fund's investments are invested in short term (3 and 6 month) interest-bearing Treasury obligations. Historically, Fund assets have been used to fund specific improvement, preservation, and acquisition activities. The Commission's assets have not been used to fund management or fundraising activities.

Once approved and funded by the Commission, completed improvement, preservation, and acquisition projects are transferred to the Architect of the Capitol and/or other congressional entities. Through their transfer, these assets become the accounting responsibility of other congressional entities and are not considered assets of the Fund.

The Architect of the Capitol, the Library of Congress, and other congressional entities are required by law to provide support services to the Commission (see note 1). The costs of these mandated services, which are financed with appropriated funds of the other entities, are not considered operating expenses of the Fund.

NOTE 3: INVESTMENTS, NET

Deposits to the Fund from contributions, coin surcharges, and interest on invested funds that are not needed currently to finance improvement, preservation, and acquisition activities are invested in interest-bearing obligations of the United States, which are purchased from the U.S. Treasury at a discount. The Commission has directed the Library of Congress to invest funds derived from contributions in 3-month Treasury securities and funds derived from coin surcharges in 6-month Treasury securities. Due to the short-term nature of the investments, the carrying values of investments approximate their fair market values. The value of investments outstanding as of September 30, 2001, and 2000, net of discounts was \$35,809,577 and \$29,087,824, respectively. Annual investment rates ranged from 2.23 percent to 6.23 percent in fiscal year 2001 and from 4.67 percent to 6.14 percent in fiscal year 2000.

Outstanding Investments as of September 30

	<u>2001</u>	<u>2000</u>
Face value of investments	\$ 36,353,000	\$ 29,952,000
Less: discounts	<u>(543,423)</u>	<u>(864,176)</u>
Investments, net of discounts	<u>\$ 35,809,577</u>	<u>\$ 29,087,824</u>

NOTE 4: NET ASSETS

As of September 30, 2001, the net assets of the Fund consist of unrestricted and temporarily restricted assets. To date, the Commission has not received permanently restricted net assets. Permanently restricted net assets result from donor-imposed restrictions stipulating that the assets be permanently maintained.

- Unrestricted net assets represent assets available to the Commission to finance current and future operations without donor-imposed restrictions. They arise from the receipt of unrestricted contributions, the expiration of temporary restrictions on assets, and interest earned on invested funds. Unrestricted net assets totaled \$30,843,117 as of September 30, 2001, and \$29,508,718 as of September 30, 2000.
- Temporarily restricted net assets represent funds received by the Commission with donor-imposed restrictions that, in some way, limit the Commission's ability to use the funds. By their nature, the restrictions may be with respect to either time or intended use. When the restriction is satisfied, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

In fiscal year 2001, the Commission received a \$5 million contribution from a

private source that was restricted for the purpose of aiding in the construction, maintenance, and preservation of the Capitol Visitor Center. As planned, the Capitol Visitor Center will be a facility, located under the East Plaza of the Capitol, that is designed to enhance the experience of the visitors to the Capitol through improved visitor orientation and related services, strengthened Capitol security, and integration of the center's design concept with the appropriate improvements to the Capitol's East Plaza. Temporarily restricted net assets totaled \$5,000,000 as of September 30, 2001. There were no temporarily restricted net assets as of September 30, 2000.

Until restrictions are satisfied, temporarily restricted net assets are invested in short-duration Treasury securities. At the Commission's direction, interest earned on these securities is considered to be unrestricted revenue.

NOTE 5: REVENUES

Revenue earned from interest on United States Treasury obligations for fiscal years 2001 and 2000 was \$1,601,848 and \$1,599,011, respectively. All revenue earned was unrestricted.

NOTE 6: PROGRAM EXPENSES

A. CAPITOL VISITOR CENTER

Commission-approved expenses associated with the proposed Capitol Visitor Center were as follows.

- Fiscal Year 2001—In October 2000, the Commission approved the expenditure of up to \$700,000 from the Fund for services related to the design and engineering of a proposed tunnel connecting the Thomas Jefferson Building of the Library of Congress to the proposed Capitol Visitor Center. In April and May 2001, the Architect contracted, on behalf of the Commission, for design and engineering services for this project totaling approximately \$640,000. Through September 30, 2001, incurred expenses against the contracts totaled \$262,999.
- Fiscal Year 2000—In June 2000, the Commission authorized the Architect of the Capitol to purchase ceremonial shovels and a granite plaque costing \$2,891 for use in the Capitol Visitor Center groundbreaking ceremony.

B. ACQUISITION OF ART, FURNISHINGS, AND HISTORICAL ITEMS

Commission rules permit the limited use of funds to purchase items of art, furnishings, or items of historical interest for each House of Congress (see note 1).

- Fiscal Year 2001—Commission members approved the use of \$4,450 in Fund assets

for the purchase of antique furnishings for display in Senate offices.

- Fiscal Year 2000—Commission members approved the use of \$17,475 in Fund assets for the purchase of antique furnishings for display in Senate offices and artwork for future display in the U.S. Senate offices in the Capitol.

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